

## **Panel 4: New Directions for the Future**

Chair: David Chu

Panelists: James Wilson, Deborah Clay-Mendez, Peggy Golfin, and Neil Singer

David Chu introduced the panel members.

**James Wilson's** remarks addressed improving the efficient use of manpower. He stated that it is widely believed that military manpower is not properly economized in the Department of Defense. Some believe this to be a legacy of the draft, when manpower (especially in low pay grades) was treated as free. In trying to improve the efficiency of manpower use in DoD, the first question is whose behavior needs to be changed. The appropriate organizational level to focus on depends on three factors: having decision-making authority to alter manpower allocations, having enough knowledge of the production process to make intelligent trade-offs between manpower and other resources, and having the incentive to seek greater efficiencies. These conditions are not well satisfied at any organizational level of the Defense Department today.

One must also consider how decisions about changes in manpower use could be incorporated into the programming, budgeting, and personnel management processes. Those organizations with the most knowledge about potential improvements usually have limited participation in these processes and almost no incentive to make efficient trade-offs. Alternatively, those with the most opportunity and authority to make changes do not have adequate knowledge of the inner workings of lower-level organizations, where labor economies may be improved. Typically, the personnel management system requires a long lead-time to respond to significant changes in the overall demand for people, but those with the most knowledge of how these changes could be made generally have short tenures. Why make the effort to economize if savings accrue after you have moved elsewhere? Why economize if the budget of your organization is reduced by the amount of the savings?

To make economically sound choices, decisionmakers must know an appropriate price for personnel. At lower levels of the decision process, the cost of manpower is not even an apparent factor in staffing decisions. At higher levels, generally only the direct costs are considered. There are many indirect costs of personnel (e.g., training and base support costs) that are not typically attributed to manpower. Even faced with the right costs, the personal and narrow institutional interests of the decisionmakers may not coincide with the interests of the military service.

For a manpower allocation mechanism to enhance the efficiency with which DoD uses military personnel:

- Incentives need to reside where there is authority and knowledge.
- Incentives need to apply to a point in the decisionmaking process where they can be implemented.
- Incentives need to be structured to be real to decisionmakers.

**Deborah Clay-Mendez** spoke about why the future AVF might not lead to more efficient compensation and personnel management systems. She observed that, although

the AVF has led to radical changes in recruiting and in the first-term career mix, the basic structure of the military personnel system --- with limited opportunities for lateral entry, limited occupational pay differentials, and 20 year retirement --- predates the AVF.

Current stresses might not be enough to force the military compensation and personnel systems in new directions. Some of the most immediate stresses might be resolved over the next decade as the size of the youth population increases by 20 percent and if unemployment rates return to historical levels. Moreover, there are several reasons why concerns about efficiency are unlikely to shape the AVF in the near future. One is the high ratio of retirees to active-duty personnel. Since 1973, the number of active-duty members per military annuitant has fallen from 2.4 to 0.7, making it politically difficult to reduce benefits that are attractive to retirees in the name of greater efficiency. Another reason is the lack of a pressing military threat, which makes it easier to tolerate inefficiency. Finally, there are all the perennial obstacles to changing the military's complex personnel systems, including the unwillingness of civilian leaders to impose change over the objections of military leaders and the unwillingness of some military leaders to give up familiar traditions.

Suppose that future stresses --- whatever they turn out to be --- don't drive the AVF in new directions but just make it less efficient. In that case, DoD might, as it has in the past, mitigate the impact of that inefficiency by substituting capital, civilians, and reservists for active-duty manpower while increasing capability.

Estimates of the DoD capital stock suggest that it has doubled relative to the size of the active-duty force since the 1970s. That trend is likely to continue as the role of new technologies (such as robotics and sensors) grows and as the United States seeks to enhance its ability to act in situations where the national interest might not justify a large loss of life. DoD has also shown that it can substitute contractors for active-duty manpower. Although the ratio of DoD civilians to active-duty personnel is the same today as in 1973, expenditures on purchased services have increased from one-fifth of military personnel costs to one-half. The opportunities for substituting reserve for active-duty manpower might appear more limited today than they were during the Cold War. Yet DoD might still take advantage of the fact that the current compensation and personnel management systems for reservists offer some of the features --- including geographic stability, integration with the civilian community, and careers that extend past 20 years --- that a radically changed active-duty system might. One approach would be for reserve units to perform full-time work for the active force either as employees of contractors or as DoD civilians, converting to military status only if required to deploy.

DoD's ability to substitute other inputs for active-duty military protects the department from some of the costs that inefficiency in the active-duty compensation and personnel systems might otherwise impose. Yet it also reduces the pressure for change in those systems.

**Peggy Golfin** addressed new markets for recruiting quality personnel. She noted that the cost per recruit has doubled since 1993 and productivity per recruiter has fallen by 50 percent since 1989. And, since 1980 the fraction of high school diploma graduates attending college rose from 50 to 66 percent. Based on survey results, the largest

untapped pool of potential enlistees are high school graduates who are college bound and have a moderate propensity to join the military. These people are most interested in three potential inducements: reductions in the length of the service obligation; educational benefits, like the Navy College Fund; and the opportunity to get college credit for Navy training. Many young people believe that college and military service are mutually exclusive. More opportunities to earn a college degree while on active duty, however, may attract some of the 66 percent of high school graduates who are college bound.

The Navy has set up a pilot program, called IT University, that lets sailors attend community college on base and qualify for an associate degree while learning skills relevant to their Navy job. The same approach could work for electronics repair personnel, linguists, and personnel in medical specialties.

Another promising program involves linking the Navy to the federally funded “tech prep” program. This integrates high school tech prep courses with general studies courses taken at community colleges and Navy technical training to produce highly trained sailors with associate degrees. The Navy is also pursuing a loan/scholarship program in which new recruits are given college loans that are forgiven if service obligations are fulfilled. Such initiatives are important to ensuring that the military continues to draw a sufficient number of volunteers into the force.

**Neil Singer** offered his thoughts on the implications of “Generation Next.” **Singer** recently served on a Navy personnel task force that decided to look a generation out, at the world of 2020. From that look came a number of propositions that have relevance for today’s volunteer force.

First, the military workplace is changing. Historically, military service has been essentially a blue-collar activity, but the skill mix needed by the services is shifting toward the high-tech end. The traditional service approach to manpower, of bringing in high-school graduates and training them in first basic and then more advanced skills, is fast becoming inconsistent with the types of personnel the services need.

Second, traditional labor pools are drying up. The smart high-school graduates the services covet, and compete for, are increasingly opting for college.

Third, civilian competition is becoming more challenging. The alternative to joining the service these days isn’t flipping burgers at McDonald’s, it’s taking a two-year course in networked systems and going to Oracle.

Fourth, today’s young people --- and even more, tomorrow’s --- are not like their elders. They have far less tolerance for apprenticeship and busywork than was true of past generations. If you don’t give them useful work, they’ll be gone, and it doesn’t matter if they stand to forfeit 50 percent of basic pay at retirement instead of 40 percent.

Finally, it is becoming harder and harder to keep up with the rate of change. Employers are responding to changing market conditions by constantly revising pay offers and working conditions, and they are only going to become better at it with practice and more information. In contrast, DoD is afflicted with pay and personnel systems that have all

the adaptability of the dinosaurs. It is ludicrous to imagine in today's world, let alone tomorrow's, that the services will be able to survive with "one-size-fits-all" compensation systems and promotion practices.

Taken together, **Singer** concluded, these propositions say that it's time for the two words most dreaded by economists: "paradigm shift." We should be giving the commands a lot more latitude to respond to market conditions than they have today, or have had in the past. We need to begin preparing now for the very different world that lies ahead.